



**International  
Accounting Standards  
Board**

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*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

### **INFORMATION FOR OBSERVERS**

**Board Meeting:** March 2009, London

**Project:** Conceptual Framework

**Subject:** Redeliberations: Objective of Financial Reporting (Agenda paper 3A)

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### **INTRODUCTION**

1. This paper discusses concerns raised by respondents regarding the objective of financial reporting. The Boards are asked to affirm the following issues:
  - a. Should the objective be broad enough to encompass all the decisions that equity investors, lenders and other creditors make in their capacity as capital providers?
  - b. Should the objective continue to focus on financial reporting rather than only financial statements? Do you agree that more specific issues relating to boundaries of financial reporting be dealt at a later phase, as planned?

### **WHAT IS THE OBJECTIVE?**

2. The ED proposed that the objective of financial reporting should encompass all decisions made by capital providers (of a reporting entity) in their capacity as

capital providers. Such decisions will include resource allocation decisions and decisions made to protect and enhance their investments.

3. Most respondents agreed with the proposed objective. They said that it was a major improvement compared to the DP/PV.

#### **Staff Analysis and Recommendation**

4. No new information was provided by respondents and we are unaware of any information that the Boards did not consider. Therefore, we propose to affirm the objective as exposed. Some constituents also provided drafting suggestions which we will consider in updating the final Chapter.

Question:

5. Do you confirm that the objective should be broad enough to encompass all the decisions that equity investors, lenders and other creditors make in their capacity as capital providers?

#### **IS THE OBJECTIVE FOR FINANCIAL REPORTS OR FINANCIAL STATEMENTS?**

6. The ED proposed that the objective pertains to financial reporting as a whole, not just to financial statements. This is consistent with the Boards' mandates. The majority of respondents agreed that the conceptual framework should apply to all aspects of financial reporting rather than only to financial statements. However, some respondents were concerned with that. Their issues are discussed in the following paragraphs.

#### ***Boundaries of financial reporting***

7. Some respondents suggested that the framework be limited to financial statements until the Boards have determined what constitutes financial reporting. For example, some of them said they found it hard to assess the Boards' proposals because the difference between financial statements and financial reporting is not yet adequately explained. Some respondents also

asked that the Boards explain the role of the primary financial statements as compared to the notes.

### *Staff Analysis and Recommendation*

8. In developing the DP and the ED, the Boards considered whether the objective should focus on financial statements only or to financial reporting. Issues considered included those raised in paragraph 7 above. Since no new information was raised, we recommend the objective applies to general purpose financial reporting rather than only to financial statements.
9. Furthermore, we recommend that the Boards affirm their initial plan to deal with the more specific issues relating to the boundaries of financial reporting and where specific types of information might be best placed within financial reporting (for example, recognition and presentation within financial statements or disclosure in notes to financial statements, management commentary, press releases and other similar information), at the relevant later phases of the project (primarily the inactive phase on presentation and disclosure, including the boundaries of financial reporting). This would have to be communicated if we finalise the Framework on a piecemeal basis (discussed in IASB Joint Agenda Paper 2/ FASB Memorandum 82 discusses on how to make the new Framework effective).

### **Economic Phenomena**

10. A group of respondents expressed a concern about the ED's discussion of economic phenomena and information that depicts economic phenomena. They noted that even though the Boards proposed that the objective applies to financial reporting, the description of what is an economic phenomenon seems to focus on the financial statements. The concern is that could be misunderstood as excluding or precluding forward-looking or prospective information or management commentary.
11. The ED describes economic phenomena as below:

Economic phenomena are economic resources, claims on those resources, and the transactions and other events and circumstances that

change them. Financial reporting information depicts economic phenomena (that exist or have already occurred) in words and numbers in financial reports.

*Staff Analysis and Recommendation*

12. We agree that the discussion of economic phenomena seemed to focus on a narrower scope than what the Boards intended. To correct that we propose the following revisions to that discussion:

QC2. Economic phenomena are economic resources, claims to those resources, and the transactions and other events and circumstances that change them. Financial reporting information depicts economic phenomena ~~(that exist or have already occurred)~~ in words and numbers in financial reports. Financial reporting may also include forward-looking financial information, for example, explanatory material that assists users in understanding the expectations and strategies of the entity.

QC3. ~~For information to~~ To be useful, information contained in financial reports ~~it~~ must possess two fundamental qualitative characteristics—*relevance* and *faithful representation*.

**Relevance**

QC4. Information is relevant if it is capable of making a difference in the decisions made by users in their capacity as capital providers. Financial information about an economic phenomenon ~~is~~ capable of making a difference when it has predictive value, confirmatory value, or both. ....

<p>Questions:</p> <p>13. Do you agree that the Chapter 1 should continue to focus on the objectives of financial reporting <u>and</u>:</p> <ul style="list-style-type: none"><li>a. Its scope should not be limited to only financial statements, at this time?</li><li>b. as planned, a later phase should deal with more specific issues relating to boundaries of financial reporting, including placement of information within particular components of financial reporting?</li></ul>
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c. Its discussion of economic phenomena should not suggest or imply that forward-looking information would be excluded or precluded from financial reporting?

14. Do you agree with the staff's recommended revisions to improve the discussion of economic phenomenon and its relation to financial information?